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FINANCIAL PROBLEMS FOR CONGRESS

BY JOHN J. FITZGERALD

Chairman of the Committee on Appropriations of the House of Representatives.

FINANCIAL problems will be uppermost during the approaching session of Congress. Other matters of importance looking to the safety, the welfare, and the development of the country will be given serious and thorough consideration; but underlying and overshadowing everything else will be the vital question of money.

Probably the simplest work of public officials is devising popular ways to deplete the Treasury; their most difficult task is to find easy funds and to safeguard their expenditure in a wise and economical manner.

Whatever views public men may have entertained in the remote, or even in the very recent past, regarding the wisdom of certain classes of expenditures by the Federal Government, such opinions must surely have been modified by the unprecedented and unanticipated events of the present World's War. Difficult as it may be to comprehend the enormity of the destruction of life and capital, impossible as it is adequately to appreciate the horrors and miseries of the devastated nations, yet definite and valuable information is available as the result of the conflict, which the United States cannot ignore without extraordinary risk.

The country is awakened to the situation, and real or apparent dangers have deeply stirred the people. A nationwide sentiment unquestionably exists for additional measures for the public defense. Expenditures unheard of—even undreamed of—until the past few months will undoubtedly result: for, however much men may differ as to the wisdom of the policy to be followed, the responsiveness of our Government to public sentiment that is based upon patriotic

fervor assures the reasonable gratification of the public demand before the Congress adjourns.

With this widespread demand for great increases in our military establishments there is no suggestion of curtailment in the civil establishments. While the estimates of the various departments are not available at this time, it is a matter of common knowledge that many suggestions will be made for the extension of existing services and the establishment of new ones, all of which involve additional drains upon the Treasury. The difficulty of arranging the finances of the Government in a satisfactory manner is increased by the existing necessity for readjustment regardless of any additional expenditures of an extraordinary character for the public defense. This necessity is not of recent origin. It has been pressing for several years, but it became acute as a result of the conditions arising from the present war.

In a statement reviewing the finances of the United States made last March, I said:

The finances of the Federal Government must be readjusted. No more important problem will confront the Congress when it reassembles. The paramount consideration should be to establish our finances upon a permanently sound basis. Makeshift legislation will not be helpful. Temporary expedients will only add to the difficulties and complicate the problems that must be faced. . . . Revenues and expenditures should now be carefully calculated, a definite fiscal policy established, and ample provision made for present and future necessities.

The estimates submitted to Congress for the current fiscal year aggregated \$1,135,187,984.31. The sums appropriated by Congress amounted to \$1,114,937,012.02.

For the fiscal year ending June 30, 1915, the appropriations amounted to \$1,116,118,138.55.

Eliminating the Postoffice expenditures, and considering what are characterized in the Treasury statements as "ordinary" receipts and expenditures, it appears that the Treasury estimates for the fiscal year ending June 30, 1915, were — receipts, \$728,000,000 — expenditures, \$710,000,000 — an estimated surplus of \$18,000,000. The actual ordinary receipts were \$697,910,827.58, the ordinary disbursements \$731,399,759.11, an actual deficit of \$33,488,931.53, instead of the estimated surplus of \$18,000,000.

The following gives a comprehensive picture of the Treasury operations for the fiscal year ending June 30, 1915:

RECEIPTS AND DISBURSEMENTS, FISCAL YEAR ENDED
JUNE 30, 1915.

Receipts.

Customs		\$209,786,672.21
Internal revenue:		
Ordinary	\$283,398,760.85	
Emergency revenue..	52,069,126.29	
Corporation income..	39,155,596.77	
Individual income...	41,046,162.09	415,669,646.00
Sale of public lands.....		2,167,136.47
Miscellaneous		70,287,372.90
Total, ordinary receipts.....		\$697,910,827.58
Deposits to retire national bank notes.....		21,553,415.00
Deposits for postal savings bonds.....		933,540.00
Total receipts.....		\$720,397,782.58

Disbursements.

Civil and miscellaneous.....	\$207,169,824.05
War Department.....	*172,973,091.73
Navy Department.....	141,835,653.98
Indians	22,130,350.70
Pensions	164,387,941.61
Interest	22,902,897.04
Total, ordinary disbursements....	\$731,399,759.11
Panama Canal.....	\$29,187,042.22
National bank notes retired.....	17,205,958.00
Bonds, certificates, etc., retired.....	47,533.00
Total disbursements.....	\$777,840,292.33
Deficit in ordinary receipts,	
\$33,488,931.53	
Excess of total disbursements,	
\$57,442,509.75	

NOTE.—Postal revenues and expenditures not included, except grants from the Treasury for deficiencies in postal revenues for 1915 of \$6,300,000, and for prior years of \$336,592.60 included in "Civil and miscellaneous disbursements" above.

* Includes, in addition to expenditures on account of the military establishment, expenditures under the War Department for certain civil functions such as river and harbor improvements, national military parks, national cemeteries, soldiers' homes, etc.

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The Treasury Department's estimate of ordinary receipts for the current fiscal year, which ends June 30, 1916, is \$735,000,000. The estimate will not be realized. It includes \$240,000,000 from customs as against the estimated \$220,000,000 for the last fiscal year when only \$209,000,000 were collected.

The continuance of the present war necessarily affects our customs receipts. The withdrawal of men from lines of production to military service, and the continual conversion of establishments into the manufacture of commodities essential for the conduct of the war lessens enormously the production of articles for export to the United States.

The following figures of customs revenues for the first four months of the present fiscal year, as compared with the first four months of the preceding fiscal year, disclose a decrease of \$12,920,889.37 :

	1914.	1915.
July	\$22,988,465.04	\$14,985,642.69
August	19,431,362.52	15,780,540.95
September	17,225,887.03	14,923,639.89
October	16,271,829.25	17,306,830.94
	<hr/> \$75,917,543.84	<hr/> \$62,996,654.47

The reasonable presumption is that this condition will continue. Apparently the end of the war is not at hand. The danger of our markets being flooded with commodities when it is finished is very much exaggerated. The productive activities of the various warring nations will be taxed to their capacity to supply their own needs, and the surplus products for export will not be a menace to our home market, nor a very material aid to our dwindling revenues.

The problem of adjusting our finances would tax the resourcefulness of Congress under normal conditions; complicated with the extraordinary demands for the military establishments, it will require the ability and the skill of the ablest men in the country to work out a solution that will be satisfactory to the people and without menace to our financial equilibrium.

The appropriations for the military establishment, including the sums in the Army Act, the Military Academy Act, the Fortification Act, and the amount for the Organized Militia, for the fiscal year ending June 30, 1915, were \$111,-

644,812.04; for the Naval establishment, \$144,868,716.61; the total for the two services was \$256,513,528.65.

For the current fiscal year, which will end June 30, 1916, the appropriations for the two services, based on the same elements included above for 1915, are: military establishment, \$113,104,226.14; naval establishment, \$149,661,864.88; a total of \$262,766,091.02.

Recently the War and Navy Departments have outlined their plans for enlargement and have announced the requests for funds to be submitted to Congress during the coming session. They are based upon plans which the departments maintain are essential for the reasonable security of the country from foreign invasion or aggression.

The plan of the Navy Department contemplates a five-year building program, additions to the personnel, the development of special corps for aviation, and other purposes. The money estimated as necessary to be provided by Congress for the next fiscal year is \$217,652,173, an increase of \$67,990,308 over the current appropriations.

The program contemplates that \$57,000,000 will be required on account of vessels to be authorized at the coming session; for the second year \$84,273,750, an increase of \$27,273,250 will be required; for the third year, \$90,767,500; the fourth year, \$89,133,087; the fifth year, \$101,786,750.

The proposed expenditure for the next year, \$67,990,308, in excess of the appropriations for the current year, is the smallest proposed. At the end of five years the estimated annual expenditures for the Navy will be approximately \$265,000,000 annually, a sum in excess of the total appropriations for the Army and Navy for the current year.

The plans of the War Department call for \$182,717,036.08 the first year, \$212,815,879.70 the second year, and \$228,315,879.70 the third and fourth years. Thereafter, it is asserted, the cost will be \$162,234,559.70 annually. The probable reduction after a four-year period needs no consideration at this time. It is in the realm of probabilities, and is more likely to remain there than to be translated into an actuality.

The proposals outlined by the War and Navy Departments call for additional annual expenditures for the purely military services of the Government of at least \$137,603,118.06.

Other departments of the Government will not be idle in demanding increases. To carry out the construction of

railroads in Alaska, to which the Government is committed and upon which work has been commenced, will necessitate in all probability at least \$5,000,000 in addition to the amount provided by Congress at the last session. Demand for the extension of the activities of the Departments of Commerce and of Labor will be pressed with persistency. Those interested in the improvement of navigable rivers and harbors have been chafing during the past two years because of the curtailment of the appropriations for such public works. The West will be clamoring for the more rapid completion of the various projects of the Reclamation Service, which can be met only by advances from the general funds of the Treasury, while the proposal to pay the Republic of Colombia \$25,000,000 in adjustment of existing differences has not been abandoned.

The movement to procure Federal aid for good roads is well organized and has many earnest and sincere advocates. During the last Congress a bill passed the House of Representatives appropriating \$25,000,000 as the first step in the movement. From various parts of the country there are insistent demands that public buildings be provided to accommodate the various Governmental services at present occupying rented or inadequate quarters.

The "See America First" movement directed an unusual number of tourists through the national parks during the present year and has added a large group of enthusiasts to those who were already urging very considerable increases in the appropriations to promote the comfort of those visiting the parks and to make them more accessible.

Looming back of all, like a death pall on the democracy, is the so-called Ship Purchase Bill with its contemplated burden of \$40,000,000, to enable the Government to enter an unnecessary domain and to conduct a commercial business at a loss.

The demands to be pressed upon Congress are not exhausted in this brief review. From every section of the country, from a multitude of groups and interests, will flow the customary claims for Federal aid and Governmental succor. Persons interested in obtaining such help will not be quiescent, while the Administration is urging its plans to strengthen the public defense. There will be a constant strife in Congress over these many matters. There will be incessant clamor that no interest be ignored, that none be

magnified at the expense of others. To reconcile these conflicting demands, to utilize available funds in the most advantageous manner, to satisfy any considerable number of claimants, and at the same time to place the finances of the country upon a permanently sound basis, is a task of no slight proportions.

In what condition is the Federal Treasury to meet the burdens to be placed upon it? How are these various undertakings to be financed? These questions cannot be ignored and they must be answered by legislation of a permanent character productive of considerable revenue.

The increase in our expenditures will not be temporary. The growth of the country, the continued extension of the activities of the Government, and the gradual, but unceasing, assumption by the Federal Government of activities more properly performed by the States, local communities, or individuals, will operate to prevent any material reduction in the total of expenditures. The question of revenue is not temporary. The problem is not merely to provide means to meet an unusual condition soon to disappear, but it is rather how to produce for many years revenues largely in excess of the necessities of the present day.

The Daily Treasury statement discloses that on November 9, 1915, the net balance in the general fund (if there be treated as liabilities \$59,685,942.89 in the hands of disbursing officers and \$24,709,843 deposited for the retirement of national bank notes) was \$31,990,677.91. If \$1,990,677.91 of this sum be allotted to liabilities for outstanding warrants in the United States and the Philippine Islands, and to outstanding interest checks, a fair statement of the free balance for November 9 would be approximately \$30,000,000. There is no surplus in the Treasury sufficient to meet the extraordinary demands to be made upon it. Legislation is required to provide revenue to finance the operations of the Government without any contemplated increase of expenditures.

This condition is due solely to the disturbed conditions resulting from the war. When the Underwood Tariff Bill was presented to the House of Representatives it was estimated that the customs receipts for the fiscal year ending June 30, 1914, would aggregate \$270,000,000 and the receipts from the income tax would be \$95,000,000. The actual collections were: customs \$292,128,527, or \$22,128,527 in excess

of the estimate; income tax, \$71,381,275, about \$24,000,000 less than the estimate. The loss in income tax returns was due to the fact that the law became operative March 1, so that considerable sums in the way of interest and dividends and payable January 1 were not reached by the law. To provide revenues in the place of those not realized from customs because of the war, Congress enacted the War Revenue Act (Act approved October 22, 1914). In the prevalent belief that normal conditions would practically be restored by January 1, 1916, the act was limited to December 31, 1915. The estimate of revenue which it would produce was placed at \$90,000,000. Those revenues cease on December 31, 1915, and on May 1, 1916, sugar is admitted free of duty. The loss in duty from those two sources would be approximately \$142,000,000 annually. Should those sources of revenue be abandoned it will be necessary to provide additional annual revenues of at least \$277,000,000; if those revenues be retained there still remains the necessity to obtain \$137,000,000 additional.

The proposed extraordinary expenditures are not for a single year. The plans of both military departments—War and Navy—cover a period of five years, and the expenditures will be less the first year than any other. The money required must be obtained from sources that will yield steadily and recurringly through a number of years. That requirement should dispose of the proposal to obtain the needed funds by a bond issue. The sale of bonds merely defers the day of reckoning. The increases proposed in the military establishments are not permanent betterments, and sound financial methods would not justify the spreading of payment for them over a number of years. They are merely part of the necessary current upkeep, and should be met out of current revenues.

Section thirty-nine of the Tariff Act approved August 5, 1909 (The Payne-Aldrich Act), authorized the reimbursement of the Treasury for the expenditures incurred by the construction of the Panama Canal from the proceeds of three per cent bonds. The amount was limited to \$375,000,000. The amount by which the Treasury can be reimbursed in this way is \$361,033,455.68, the sum in which it has been reimbursed is \$138,600,869.02, and the sum available now for reimbursement is \$222,432,586.66. The Administration is justified in reimbursing the Treasury at any time by the sale

of these bonds. The sum of \$222,432,586.66, which should be available for the current needs of the Government, has been expended in the construction of the Panama Canal—a permanent work. Whether the time is propitious for an issue of three per cent bonds is a matter for thoughtful consideration; but even though those bonds be issued there will still be the necessity for legislation to increase, by a very extraordinary sum, the current revenues of the Government. Various methods have been suggested to obtain the increased revenue. The vastly changed conditions since the enactment of the Underwood Tariff Act seem to have resulted in a very persuasive sentiment for the repeal of the provisions placing sugar on the free list. Desirable though it may be to admit sugar free, the paramount necessity of revenue practically compels legislation to retain the fifty-odd millions obtainable from such a source.

The present War Revenue Act was designed as a temporary measure. It has many irksome and irritating features. Wisdom, however, would seem to prompt its extension, either in its present or in some modified form. It is almost axiomatic that even irritating methods of taxation gradually lose their offensive character. The people seem to become inured to them. Politically it is safer to continue a system to which the people are accustomed than to substitute novel and equally exasperating taxes.

Proposals have been made that resort be had to a Federal inheritance tax. There is a practical objection to this legislation, unless it be absolutely imperative. A very large number of the States have such laws in force, and some of them are as burdensome as public sentiment will tolerate. To add a Federal tax would in many instances be unjust. Some of the States would in all probability be compelled to modify materially their present statutes. Since this field is so thoroughly preempted by the States, and as confusion and hardship would be the inevitable result of a Federal tax, its wisdom at this time may well be doubted.

A determined effort will be made to obtain considerable increase of revenue by modifications of the income tax law. There is a very prevalent belief that an income tax is the most just and equitable manner of obtaining funds for the maintenance of the Government; and it has been suggested that by increasing the super-tax on the larger incomes, and by reducing considerably the exemption, the revenues can be

legitimately increased without material injury or the slightest injustice to anyone.

The War Revenue Act (Act approved October 22, 1914), as it passed the House of Representatives, contained a tax of two cents a gallon on gasoline, motor spirits, naphtha, and other products. This provision was eliminated by the Senate. The lowest estimate of the revenue that would be obtained from such a tax was \$20,000,000. Another suggestion which "died aborning" was the proposed tax of three per centum on freight charges. It was variously estimated that such a tax would produce between \$30,000,000 and \$50,000,000 annually, and a cogent argument in its favor was the ease with which it could be collected. It required no new and extensive organization. The necessary information under existing laws is furnished to the Interstate Commerce Commission in uniform reports, and those reports are checked by the agents of the Commission.

Whether resort will be had to any or all of the foregoing methods, or whether new and heretofore untried sources will be tapped, is yet to be determined.

The Congress, however, before it reaches a decision will have presented for consideration the views of the Administration. The so-called Smith amendment to the Sundry Civil Appropriation Act, approved March 4, 1909, requires the Secretary of the Treasury, whenever the estimates for the conduct of the various Governmental services exceed the estimated revenues, to transmit the estimates of revenue and of appropriations to Congress, and at the same time to furnish them to the President. The Executive is then required to inform Congress how the estimated expenditures can be reduced to sums within the estimated revenues without injury to the public service, and if in his judgment such reductions cannot be made, what new forms of taxes, or loans, shall be authorized in order to obtain the requisite revenues. It will be recalled that in the book *Cost of Our National Government*, Prof. Henry Jones Ford, of Princeton, speaking of this provision, says that Congress has taken

a step toward connection of the powers, and has thus unwittingly started a movement of profound constitutional importance. The real hope of establishing budget control, and with it a genuine constitutional system, lies in the flow of political force in the channels thus opened.

He adds that the action taken by Congress making it the

duty of the President to coordinate income and expenditure, as provided in the Smith amendment, "is the salvation of representative government in the United States." The Administration is required by law to suggest to Congress the manner in which the additional revenues shall be obtained. It would be unwise to attempt to anticipate the recommendations of the Executive. But the problem is one of the most difficult and complicated presented to any Administration since the Civil War. Statesmanship of the first order will be required to solve it successfully. Patriotic men of every political creed will unite in an honest and sincere effort to perform the task involved in the manner most beneficial to the people.

The prosperity of the country, the development and extension of commerce in every form, the continued and remunerative employment of labor, the happiness and contentment of the people, are all dependent upon the fiscal legislation of the Sixty-fourth Congress.

JOHN J. FITZGERALD.